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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of

Regulatory Reform for)
Local Exchange Carriers) CC Docket No. 92-135
Subject to Rate of Return)
Regulation)

Reply Comments of
PTI COMMUNICATIONS

PTI Communications (PTIC) respectfully submits its Reply Comments in response to the Commission's Notice of Proposed Rulemaking, FCC 92-258, released July 17, 1992.[1]

PTI Communications supports the Commission's efforts to address the needs of small and mid-sized local exchange carriers (LECs) in the development of regulatory alternatives. As was stated within the NPRM, PTIC believes that the Commission's present rules governing access filing requirements are excessive and should be streamlined.

Again, PTIC would like to emphasize that, absent a number of

[1] PTIC also filed initial Comments in the instant proceeding. See Comments of PTI Communications, CC Docket No. 92-135, filed August 28, 1992.

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alterations, PTIC, as well as many other similarly situated LECs, will not likely opt for an incentive regulation plan such as the one that has been proposed.

Introduction

First, PTIC would like to reiterate its position on the proposed plan's stringent eligibility criteria. While PTIC concurs with the Commission's desire to have a reasonable number of filing scenarios, the comments of PTIC and others clearly establish the necessity of a continued Long Term Support mechanism, now available for small and mid-sized companies only through the nationwide pooling of Common Line.[2]

Second, PTIC will address AT&T's narrow interpretation of the usefulness of rate development changes for what is "known and measurable". PTIC finds the "known and measurable" adjustment provision to be worthwhile, especially in view of the actual experiences cited below.

Last, both the Commission and United States Telephone Association (USTA) proposals raise a number of other issues (ie. ROR earnings

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[2]Several Parties joined PTIC in advocating such bifurcation. See Comments of ALLTEL Service Corp., pp. 7-8; GVNW Management, Inc., p. 4; Independent Telephone Access Group, p. 7; John Staurulakis, Inc., p. 9; Puerto Rico Telephone Company, pp. 2-4; Small Business Administration, p. 10; Tallon, Cheeseman and Associates, Inc., p. 8; and United States Telephone Association, pp. 5-11.

bands, infrastructure reporting, a prospective option for Baseline, etc.) PTIC will not discuss them within its Reply, but instead lends its concurrence to the more comprehensive remarks being filed today by the USTA.

Election of such a voluntary incentive plan must be permitted on a bifurcated basis.

Foremost among our objections to the instant, NPRM proposal is the eligibility requirement which limits plan election to companies **not** participating in <u>any</u> of the National Exchange Carrier Association (NECA) administered pools. PTIC is convinced of the need for continued optional pooling of small and mid-sized company subscriber loop costs, while incentives for non-pooled Traffic Sensitive services and rates would be beneficial.

Not surprisingly, AT&T offered guarded support for the overall plan concept. The nation's largest interexchange carrier correctly characterized itself as the most likely recipient of small and mid-sized company productivity savings. PTIC also concurs with AT&T's claim that, by virtue of the RBOCs and larger LECs involvement in the price cap plan (and in contrast to their small and mid-sized counterparts), their access rates have consistently moved lower. However, PTIC rejects the implication that incentive regulation alone will alleviate the pressure long distance carriers feel to geographically deaverage end user toll rates.[3]

PTIC explained, in its initial comments, the dangers associated with high cost small and mid-sized companies moving away from the nationwide pool. The NECA administered Common Line pool has allowed small and mid-sized LECs, despite their true level of cost, to offer interexchange carriers (ICs) more competitive access prices. And thus, ICs have been encouraged to geographically average their toll rates. Arguably, the future of the "from anywhere, to anywhere", public network may be what is at stake here. Continued Long Term Support will help to ensure the viability of the rural switched network.

Major changes in cost or demand warrant
inclusion of "known and measurable" adjustments.

The present use of a projected test period provides small and mid-sized companies the ability to compensate for material changes in cost and demand. At the same time, PTIC recognizes the NPRM compromise in favor of ease of verification, review, and approval. However, PTIC again disagrees with the position espoused by AT&T[4] and urges the Commission to make the known and measurable adjustments provision a meaningful portion of this plan.

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[3]See Comments of American Telephone & Telegraph Company, p. 2, footnote 2.

[4]See AT&T Comments at p. 4.

A number of examples, taken from PTIC rate development experience will help make this point. First, in anticipation of the 1987 comprehensive rate filing, the company became aware of the imminent closure of the Exploration Camp of a major international oil company and a large employer within the PTIC-Wyoming area. In this instance, the demand forecast was pared back sufficiently for the access filing. The use of unadjusted, historical minutes of use would have left the resulting access rates artificially low.

On the other hand, for the Interstate rate development in 1988, the company was able to include increased access usage in Montana. Known and measurable predictions were included in that forecast on the basis of formal service requests. An IC notified the company of its intention to purchase a substantial number of trunks for the purpose of terminating access traffic in that PTIC serving area. Historical experience alone would have caused 1988 access rates to be overstated.

Third, late in 1991 PTIC was awarded the contract to provide non-official (Class B) telecommunications service for a United States Air Force Base, which increased the access lines for the affected study area by 67%. The cost and demand associated with this military community had never been considered a regulated part of the public network before this grant. The company considered the adjusted projections for the Base among the explainable variances for the recent access filing.

Finally, PTIC serves a large government entity which has recently purchased a PBX system which will substantially bypass PTIC's access network. The customer, a major source of access usage statewide, has supported its own private network (for internal communications) for several years. Without a doubt, this access usage will no longer support company costs at the previous level. In fact, this bypass usage will substantially benefit the IC. Allowing an adjustment for the loss of usage from such a large entity is reasonable and necessary.

From the above examples, PTIC has demonstrated the need for inclusion of known and measurable adjustments in the access rate development process. With such a feature, the process will better assure the reasonableness of the rates established, and minimize administrative burden (i.e. by obviating the need for at least some mid-course corrective filings).

Conclusion

PTIC supports the adoption of such a voluntary incentive plan, as a regulatory alternative for small and mid-sized companies, amended as recommended above. PTIC also concurs in the more detailed and comprehensive comments to be filed by the USTA.

PTIC urges the Commission to permit a bifurcated approach, and not require disassociation with the NECA Common Line pool. While the concepts of "settlements" and "revenue sharing" violate textbook theories of competitive market economics, the availability of the NECA Common Line pool enhances the accomplishment of the Commission's other access pricing objectives: 1) promoting universal service, 2) preventing end user price discrimination, 3) encouraging network efficiency, and 4) mitigating potential for uneconomic bypass.

In addition, PTIC strongly recommends that the Commission accept known and measurable changes as an essential, rate stabilizing, part of developing test period access rates. Absent the capability to incorporate prospective data, it is questionable whether small and mid-sized companies' earnings will be adequate in the long run. The inclusion of certain verifiable adjustments of significance could serve to mitigate that earnings risk.

Finally, a failure to recognize significant known and measurable impacts will greatly hamper a small or mid-size LEC's ability to fund upcoming network upgrades (ie. SS7, 800 Data Base, Billed Party Preference, etc.) currently demanded by access customers and/or regulators.

In sum, PTIC finds the proposal, modified as suggested, will prevent increased volatility for small and mid-sized companies and provide a balanced regulatory plan.

Respectfully submitted,

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September 28, 1992

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